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Chapter 9

CROATIA AND THE LISBON STRATEGY: CONVERGENCE TOWARDS GOALS?

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ABSTRACT

The paper investigates the interdependence of the Lisbon strategy and Copenhagen criteria in the process of European Union enlargement and a candidate's ability to catch up with new member states. It aims to deepen the understanding of the nature and dynamics of the Lisbon policy mix and implementation instruments. It concludes that convergence with Lisbon goals is relevant for a country in the pre-accession stage. Since the timeframe for implementation of the strategy and Croatia's expected accession are almost the same, approaching Lisbon goals is extremely important for the country. Experience of member states in strategy implementation and evaluation of Croatia's starting position vis-à-vis Lisbon targets are used to identify policy recommendations.

Key words:

Lisbon strategy, membership criteria, national reform programmes, Croatia

INTRODUCTION

The aim of the paper is to investigate the interdependence of the Lisbon agenda and the Copenhagen criteria. The starting hypotheses are the following: (i) the implementation of Lisbon agenda goals is complementary to fulfilment of the Copenhagen economic criteria for EU membership; (ii) prioritisation and sequencing of Lisbon agenda goals according to needs is indispensable for a candidate country; (iii) progress towards Lisbon goals at the level of the EU will make Croatia's adjustment with EU economic requirements even more demanding (the EU being a "moving target") and (iv) Croatia is lagging behind member states in terms of Lisbon strategy implementation.

The paper starts with an overview of the evolution of the Lisbon strategy and its implementation instruments. This is followed by analyses of relevant approaches in dealing with the Lisbon agenda in member states and some particular issues of the agenda. Next, Croatia's position vis-à-vis selected EU member states and candidates is evaluated. Based on this, conclusions are briefly summarised and policy recommendations identified.

EUROPE AT THE CROSSROADS: THE LISBON STRATEGY

The Lisbon strategy (also referred to as the Lisbon agenda) was agreed in 2000 at the spring European Council in Lisbon. The EU set itself the strategic goal "to become the most competitive and dynamic knowledge-based economy in the world by 2010, capable of sustainable economic growth with more and better jobs and greater social cohesion" (European Council, 2000). The strategy included a comprehensive series of reforms. It was a response to global competition, particularly to US progress in the "new" knowledge economy and its leadership in information and communication technologies (ICT), in which it had begun to outperform the individual European economies. However, achieving this goal required preparing for a knowledge-based economy and society by better policies and completing the internal market; modernising the European social model and sustaining a healthy economic outlook and favourable growth by an appropriate macro-economic policy mix.

The Göteborg Council in 2001 added an environmental protection dimension to the Lisbon strategy (European Council, 2001). In order to close the gap between the EU and its major competitors, the Barcelona Council (European Council, 2002) agreed to boost the research and innovation efforts in the EU through increasing the overall spending on research and development (R&D) and innovation with the aim of approaching 3% of GDP by 2010, with two-thirds of investment coming from the private sector.ⁱ

Almost five years after Lisbon, midway to the goal, the results of implementation were mixed. Although there were positive achievements in some areas (the European social model), slow and insufficient progress has been made in reaching the Lisbon objectivesⁱⁱ. The delivery was disappointing, due to widely defined goals, an overloaded agenda, poor coordination and conflicting priorities. Responsibilities between the national and the European level had become blurred resulting in limited “ownership” of the process in member states. Weaknesses were particularly evident in the labour market, such as: an insufficient number of jobs had been created in the services sector; deepened regional imbalances; high rate of long-term unemployment; shortage of women participating in the labour market; unfavourable demographic trends, ageing of the population.

Analyses (Sapir et al., 2003) showed that better implementation was needed to make up for lost time.ⁱⁱⁱ In March 2004, a high level group headed by Wim Kok was established by the European Commission to carry out a mid-term review. The findings of the mid-term review could be summarised as follows: there was an urgent need to accelerate employment and productivity growth through a wide range of reform policies as well as a wider macroeconomic framework, supportive to growth, demand and employment (Kok, 2004). The scenario for more growth and jobs was envisaged through urgent action across five policy areas: the knowledge society, the internal market, the business climate, the labour market and environmental sustainability. It was concluded that individual member states had made progress in one or more of these policy priority areas, but none had succeeded consistently across a broad front. Therefore, the group recommended developing national policies in each member state, supported by an appropriate European-wide framework. The report was one of the bases for the relaunched strategy in 2005.

The revised Lisbon Strategy

The spring European Council in 2005 decided that Europe must renew the basis of its competitiveness, increase growth potential and productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital. The relaunched strategy re-focused priorities on growth and employment (European Council, 2005). The Commission proposed a partnership with member states on growth and jobs and introduced a Community Lisbon Programme that outlines actions to be taken at EU and at national level in three key policy areas (Box 1). The focus was on ensuring delivery of a renewed programme.

Box 1 Community Lisbon Programme

Making Europe a more attractive place to invest and work

- Extend and deepen the internal market.
- Ensure open and competitive markets inside and outside Europe.
- Improve European and national regulation.
- Expand and improve European infrastructure.

Knowledge and innovation for growth

- Increase and improve investment in research and development.
- Facilitate innovation, the uptake of ICT and the sustainable use of resources.
- Contribute to a strong European industrial base.

Creating more and better jobs

- Attract more people into employment and modernise social protection systems.
- Improve the adaptability of workers and enterprises and the flexibility of labour markets.
- Invest more in human capital through better education and skills.

Source: European Commission (2005d)

In addition to streamlining the targets, the relaunched strategy introduces new implementing mechanisms focused on concrete measures and national action plans. Responsibilities and implementation are divided between the EU and member states, with an important role for the European Council, the European Parliament, other EU institutions and social partners.

On one hand, a programme for European level reform – the Community Lisbon Programme – is implemented on the basis of proposals by the Commission adopted by the European Parliament and the Council. On the other hand, member states undertake reforms at national level (national reform programmes, prepared every year) on the basis of agreed guidelines, proposed by the Commission and endorsed by the Council. The Commission works with member states on implementation and assesses progress in the annual progress report (also known as the “Spring Report”) allowing stakeholders and citizens to see how far the European-level programme and that of each individual member state has gone. The European Council gives practical guidance at every spring summit.^{iv}

The new governance mechanism includes, where appropriate, appointment of a Lisbon national coordinator. The reporting system was simplified, comprising a single Lisbon report at the EU and at national level on progress made.

Such governance builds on the open method of coordination (OMC), which was introduced by Lisbon Council. The Lisbon Council, that is, agreed that implementation of the strategy would be achieved through the existing processes if the OMC were introduced at all levels.

It is extremely difficult to quantify the impact of Lisbon-type reforms, since they are comprehensive and interdependent. One of the best examples of a Lisbon-type reform aimed at creating a more competitive business environment is the single market programme (SMP). A simulation carried out ten years after the launch of the SMP (European Commission, 2002a) showed that GDP would have been 1.8% lower in 2002 if the SMP had not been implemented over the period 1992-2002. The level of employment would have been 1.5% lower than it actually was in 2002. Turning to reforms more directly linked to the Lisbon strategy, a recent study by Copenhagen Economics (2005) provides estimates of the medium-term impact of the opening up of services to competition. The study shows that freedom of establishment for service providers and free movement of services between member states would raise GDP and employment by 0.6% and 0.3% respectively.

Estimates show that the costs of non-achieving Lisbon are large and quantifiable, particularly through the evidence of the widening gap in Europe’s growth potential compared to that of economic partners (European Commission, 2005f). In the same time, the potential gains from wider and more efficient economic integration in an enlarged Europe are significant (Gelauff and Lejour, 2005).

Box 2 Four priority areas for action (accepted by the Spring European Council 2006)

(1) Investing more in knowledge and innovation

- Promote policies and actions aiming at the established overall 3% objective for R&D spending by 2010, taking into account different starting positions of member states.
- Speedily adopt the 7th Framework Programme for R&D and the new Competitiveness and Innovation Programme (CIP).
- Establish a European Research Council aimed at raising the excellence of the best research teams.
- Create a single, competitive and open European labour market for researchers.
- Develop a broad-based information strategy for Europe that translates investment in knowledge into products and services.
- Member states should develop comprehensive lifelong learning strategies; the EU Lifelong Learning Programme 2007-2013.
- Facilitate universities' access to complementary sources of funding, in line with national practices.
- Develop managerial skills and competencies for the people involved to transfer the research results to the business community.

(2) Unlocking business potential, especially of small and medium-sized enterprises

- Develop national strategies to foster competitiveness, innovation and productivity.
- Explore options for establishing measurable targets in specific sectors for reducing administrative burdens by 2006.
- Establish by the end of 2007 a "one-stop-shop" or arrangements with equivalent effect.
- Reduce the average time for setting up a business, especially an SME, with the objective of this being possible within one week anywhere in the EU by the end of 2007.
- Recruitment of a first employee should not involve more than one public administration point.

(3) Getting people into work

- Reduce unemployment from a peak of 9% at the end of 2004 by roughly 1% in 2007.
- Adopt a real lifecycle approach to employment by:
 - reducing early school leaving by 10% by 2010,
 - ensuring that at least 85% of 22-year-olds should have completed upper secondary education,

- offering every young person who has left school or university a job, apprenticeship or additional training within six months of becoming unemployed by the end of 2007, and within 4 months by 2010,
- implementing policies to promote women's employment; approval of the European Pact for Gender Equality,
- increasing availability of quality childcare in line with member states' own national targets,
- implementing active ageing strategies, consideration of incentives for prolonging working lives, gradual retirement, use of part-time work and improvements to the working environment,
- pursuing reforms by member states in the labour market and social policies in an integrated approach,
- establishing the European Globalisation Adjustment Fund, to be operational as soon as possible and preferably on 1 January 2007.

(4) Efficient, secure and sustainable energy

- Electricity and gas markets to be open to all consumers by July 2007 (already the aim).
- Better cooperation between grid and gas pipeline systems in member states, enabling the functioning of a single European network.
- Stimulation of research on energy efficiency, renewables and on clean energy technologies and incentives to promote their use.
- Common operational approaches for crisis situations.
- Develop common external policy approach and furthering energy dialogue between the EU and its member states on the one hand, and their main partners (producer, transit of consumer countries) on the other, in synergy with relevant international organisation.

Source: authors' compilation

However, some of the studies that have been carried out in the meantime came to the conclusion that the Lisbon strategy still does not have clear common goals and lacks financial sources and that the results of implementation are still lower than expected (e.g. Pisany-Ferry and Sapir, 2006). The study underlines the weaknesses in implementation particularly in big member states, while the new members are achieving better results. The study estimates that the integrated guidelines are still too general and should be made more concrete and detailed.

IMPLEMENTATION INSTRUMENTS

The new governance three year cycle started in 2005, and comprises the following main instruments: Integrated guidelines (presented by the Commission in April 2005, for the period 2005-2008); National reform programmes (prepared by member states by the end of November 2005), and Commission progress report (published in January 2006).

The open method of coordination (OMC) introduced by the Lisbon Council is still an important implementation instrument.

Integrated guidelines for growth and employment

The integrated guidelines constitute the beginning of a new governance cycle (the first one was 2005-2008), bringing together broad economic policy guidelines (BEPGs, Treaty art. 128) and employment guidelines (EGs; Treaty art. 99).

The integrated guidelines (Box 3) dealing with macro- and micro-economic and employment issues are mainly based on the priority action areas as identified in the Lisbon mid-term review.

While the macroeconomic guidelines (covering for instance budgetary policy, reduction of public debts and EMU issues) have no counterpart in the Lisbon Action Programme (see Box 1), the micro-economic guidelines are built on Lisbon action areas (points 1 to 7, Box 1), and the employment guidelines are also built on Lisbon action areas (points 8 to 10, Box 1).

Integrated guidelines simplified the implementation of the strategy and integrated different policy guidelines, targets and reporting processes. Since they are soft law, i.e. not legally binding, peer pressure and financial incentives are the main enforcement instruments.

New financial incentives are developed under the Financial Perspective 2007-2013, such as the Competitiveness and Innovation Framework Programme (CIP). CIP allocated 3.6 billion euros which should facilitate implementation of the Lisbon Strategy.^v The horizontal contribution of the European Investment Bank (EIB), European Investment Fund (EIF) and other sources is also envisaged, since studies have shown the high added value in EU support for loan guarantees, with each euro from the EU budget resulting in a loan volume of 72 euros (European Commission, 2006d).

**Box 3 Integrated guidelines for growth and employment
2005-2008**

Macroeconomic guidelines intended to:

- (1) secure economic stability,
- (2) safeguard economic sustainability,
- (3) promote an efficient allocation of resources,
- (4) promote greater coherence between macroeconomic and structural policies,
- (5) ensure that wage developments contribute to macroeconomic stability and growth,
- (6) contribute to a dynamic and well-functioning EMU.

Microeconomic guidelines intended to:

- (7) extend and deepen the internal market,
- (8) ensure open and competitive markets,
- (9) create a more attractive business environment,
- (10) promote a more entrepreneurial culture and create a supportive environment for small and medium-sized enterprises,
- (11) expand and improve European infrastructure and complete agreed priority cross-border projects,
- (12) increase and improve investment in R&D,
- (13) facilitate innovation and the take-up of ICT,
- (14) encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth,
- (15) contribute to a strong industrial base.

Employment guidelines intended to:

- (16) implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion,
- (17) promote a life-cycle approach to work,
- (18) ensure inclusive labour markets for job-seekers and disadvantaged people,
- (19) improve the matching of labour market needs,
- (20) promote flexibility combined with employment security and the reduction of labour market segmentation,
- (21) ensure employment-friendly wage and other labour cost developments,
- (22) expand and improve investment in human capital,
- (23) adapt education and training systems in response to new competence requirements.

Source: European Commission (2005c:10)

Open method of coordination

The OMC is still the most important method of coordinating the Lisbon strategy, although it still has some weaknesses (Radlo, 2006). Lisbon strengthened the OMC, making peer pressure and monitoring more effective.

The OMC includes in-depth analyses of situations, supported by appropriate measurements, such as enterprise policy or innovation scoreboards, competitiveness reports or composite indicators on knowledge society in areas such as R&D and human capital. It is usual to make comparisons between the performances of individual member states with a view to conducting benchmarking exercises, with appropriate follow-ups. In addition, an increasing use of the OMC is envisaged for future quantitative targets. Such targets, to be set by member states, could be used as yardsticks for monitoring competitive improvements when accompanied by corresponding measurements (European Commission, 2002b). There is an obligation to include certain specific elements from the OMC into national reform programmes and EU annual progress reports. There are policies characterised by a stronger OMC and policies where the OMC is weak.

NATIONAL REFORM PLANS

The national reform plans (NRPs) together with the Community Lisbon programme, are among key instruments of the new Lisbon strategy. Member states were supposed to prepare NRPs by October 2005 for the period 2005-2008 on the basis of the 23 integrated policy guidelines (Box 3).^{vi}

Member states identified different challenges and policy responses reflecting their different starting positions and political preferences. Starting positions and pace of reform are monitored by a number of benchmarks, which should, at a latter stage, help in identifying best practices and serve to name and shame the laggards.^{vii}

In the overwhelming majority of cases, five key challenges emerge: (i) increasing employment and labour market performance, (ii) the sustainability and quality of public finances, (iii) improving R&D and innovation, (iv) strengthening the business environment, and (v) increasing skills.

Policy responses to these challenges include implementation of measures announced earlier (such as measures developed in the framework of broad economic policy guidelines (BPEGs), and in the Stability and Convergence Programmes) and new measures (such as raising the retirement age).

Insufficient time has elapsed for any implementation of NRPs. Existing assessment of the NRPs evaluates whether goals and reform strategies are realistic (e.g. Begg, 2006; European Commission, 2006b; European Policy Committee, 2006; European Environmental Bureau, 2006; European Employment Committee, 2006). Their conclusions diverge: the European Commission (2006b) considers that the main shortcomings of the NRPs are macroeconomic, while according to Begg (2006), the NRPs seem to be better in explaining how macroeconomic objectives will be pursued and less successful with respect to microeconomic goals.

Macroeconomic issues

All but three member states – Sweden, the Netherlands and Italy – have explicitly identified macroeconomic challenges in their NRPs. The priorities of national reform plans are based on the Treaty provisions on fiscal discipline and are generally in line with the Stability and Growth Pact.

All member states recognize the need for sound and sustainable public finances while many of them intend to improve their deficit and debt position. These efforts are assessed under fiscal surveillance rules (i.e. evaluation of the Stability and Convergence Programmes). Fiscal consolidation strategies are typically expenditure-based and embedded in the broader structural reform plans. As regards long-term fiscal sustainability, ageing is projected to affect public expenditure for pensions and health care strongly. Pension reforms are being implemented in many member states to enhance the sustainability of public finances. The peer review of the NRPs suggests that given the scale of the ageing challenge, Europe must do more to ensure the sustainability of its public finances (European Policy Committee, 2006).

Weaknesses identified by the Commission include insufficiently explicit short-term measures for budgetary consolidation, and the fact that budgetary implications of the actions envisaged in other policy areas (e.g. employment and social policy) are seldom spelled out (European Commission, 2006d).

Microeconomic issues

The main themes of the microeconomic part of the revised Lisbon strategy are knowledge and innovation, and making Europe a more attractive place to invest and work in (see Box 1, Lisbon Action Plan). The main microeconomic challenges identified by NRPs are improving R&D and innovation, strengthening the business environment and increasing skills. The challenges are dealt with by policy measures that vary across sectors and member states, ranging from general targets to concrete measures to be taken, tailored to the specific need of the country.

For example, all member states address research and innovation policies as a priority. Most of them also tackle strengthening the business environment and increasing skills. Many member states plan a significant increase in overall R&D expenditure at national level by 2010. The EU-25 target for R&D expenditure is defined at 3% of GDP by the year 2010. National targets range from 0.75% (Malta) to 4% (Finland and Sweden). Most of the old members (Belgium, Denmark, Germany, France, Luxembourg, Netherlands and Austria) set their national target in line with the EU-25 target (3%). Most of the new members set targets between 1.5% and 2%. Measures aimed at meeting this target include increasing public expenditure on R&D, encouraging private R&D expenditures by extension of tax credits for private R&D expenditure, improving the quality of education, increasing of number of PhD holders in enterprises by co-financing contracts and measures to strengthen science-industry links.

However, targets do not always have a close link to specific measures, so it is difficult to assess the general level of ambition and feasibility of the plan. Also, despite some concrete measures, meeting the targets is beyond government control. Policy measures can influence decisions to invest private capital in R&D, but there is no way to ascertain that numerical target will be achieved (Baldwin and Wyplosz, 2004). Furthermore, even if all member states meet their national targets by 2010, the R&D expenditure on the EU-25 level might reach up to 2.7% GDP (compared with the 3% target), which, as already mentioned does not ensure any direct link with increased innovation.^{viii}

Next, most member states have highlighted the need to improve the business climate. The NRPs indicate that member states are increasingly recognising the importance of a more competitive marketplace. Around half of the member states identified competition and re-

moving obstacles to market access, particularly in services, as a challenge. Only a few NRPs tackle this challenge effectively. The measures include transposition of internal market directives, strengthening competition agencies and better regulation.

The Commission considers that the choice of priorities is in general appropriate to the current situation in the member states, but that competition issues will require further attention.

Employment

The European Employment Strategy (EES), the employment pillar of the Lisbon strategy is based around three objectives: (i) full employment, (ii) productivity and quality at work, and (iii) social and territorial cohesion.^{ix}

Employment guidelines provide a policy framework to focus action on these priorities by attracting and retaining more people in employment; increasing the labour supply and modernising the social protection system; improving the adaptability of workers and enterprises, and increasing investment in human capital through better education and skills (see Box 3, integrated guidelines).

The EU-25 target for 2010 is a total employment rate 70%. Employment rates in 2004 varied from 51.7% in Poland to 75.7% in Denmark. Not all national targets have been defined (Germany, France, Ireland, Luxembourg). Defined targets range from 62.5% (Greece^x), to 71% (Cyprus), though the measures proposed to achieve this are not always adequate.

Measures aimed at increasing the employment rate include incentives to attract and retain more people in employment, increase the labour supply and modernise the social protection system. In a number of member states especial attention is given to youth by the integration of policies on education, training, mobility, and the reconciliation of working life and family life in the Youth Pact. Several member states also plan to raise the exit age by five years by 2010.

More investment in human capital to improve employment and productivity growth has received widespread attention. Implementing lifelong learning, embracing education, training and adult learning, particularly for the low-skilled, requires a coherent policy linked to the economic and social situation of each member state. Such measures are funded under the convergence objectives of the European Social Fund,

but do not always pay enough attention to increasing the adaptability of workers and enterprises.

The main conclusions that can be drawn from National Reform Programme are following:

- Member states start from different positions. Generally, the old member states are more concerned with social cohesion, ageing of the population, job creation and support to research and development. The new members are more focused on raising the level of competitiveness.
- There is a large convergence of views on the diagnosis and on key challenges which need to be addressed as a matter of priority: for example, sustainability of public finances, labour supply, R&D and innovation, the business environment and environmental sustainability.
- The differences in the programmes can, to a certain extent, be explained by different starting positions, but the policy mix also depends on the political priorities defined by each member state.
- Reform programs range in terms of breadth and ambition and the likelihood that they will be implemented. Some of them have introduced new policies, while others have presented only existing measures.
- Quantified targets should be handled with care, since they can be helpful in monitoring progress of reforms, but are not necessary linked with achievement of main goals.
- A surfeit of targets and measures makes it more difficult to measure progress towards the main goal: increased growth and more and better jobs.

RELEVANCE OF LISBON STRATEGY GOALS FOR CROATIA

Lisbon strategy and Copenhagen criteria

In order to become member, a candidate country has to meet political and economic membership criteria. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union^{xi}.

The Lisbon agenda is focused on economic and social issues, while political issues are less relevant in the Lisbon context. Therefore we will focus on economic membership criteria and ability to assume obligations of the membership. As regards economic criteria, Croatia can be regarded as a functioning market economy. It should be able to compete with competitive pressure and market forces within the EU in the medium term, provided that it continues implementing its reform programme to remove remaining weaknesses (European Commission, 2005a:46).

Croatia's official target date for integration into the EU (2009) coincides with the timeframe for meeting Lisbon goals. This implies that in order to meet Copenhagen economic criteria Croatia should be able to withstand competitive pressure from and compete with market forces in the most competitive economy in the world, which will make Croatian alignment more demanding than it already is.

As regards ability to assume the obligations of membership, the Commission's report showed that in a number of chapters Croatia will be required to make significant efforts to meet the EU requirements (European Commission, 2005a).

As concerns the *acquis*, in the pre-accession phase Croatia will have to align with "more *acquis*" than the countries that joined the EU in 2004. Continual alignment is necessity for member states as well, but the experience of the last round of enlargement shows that "would-be" members comply with the rules more strictly than member states. In member states delays in implementing new *acquis* is subject to peer pressure and eventually, at a later stage, can be challenged before the European Court of Justice. For a candidate country, negotiation pressure is a much more powerful instrument for implementation of reforms than peer review within the EU.

Next, it should be underlined that the sequencing of reforms in order to implement new *acquis* is not an issue in member states. They adopt it as it comes (or with reasonable delays). From the candidate country perspective, sequencing is important, especially when the time horizon for full membership is not known and might heavily depend on internal EU development, rather than on the alignment process.

As concerns harmonisation of policies, the requirement to take on the obligations of membership includes adherence to the aims of the EU policies. The negotiating framework for Croatia explicitly states that Croatia will have to apply, *inter alia*, the content, principles and political objectives of the Treaties on which the Union is founded and

also acts that are not legally binding but that are adopted within the Union framework, such as guidelines (Negotiating framework, point 7). Lisbon objectives are defined by treaties: one of the objectives of the Treaty is the promotion of sustainable development, a high level of employment and social protection, sustainable and non-inflationary growth and a high degree of competitiveness and convergence of economic performance (Article 2). The Treaty also defines what shall be done at the EU level, and which decisions should be left to national authorities. As concerns employment, the Treaty defines the advisory role of the Employment Committee and responsibility for actions on the member state level (Title VII of the TEU). The Constitution has comparable provisions (e.g. Article I-3, or Article III-117).

In this respect the added value of Lisbon does not inhere in the new goals, but in the definition of benchmarks, timeframe and the governance mechanism. Consequently, the Lisbon objectives do not constitute additional criteria or economic objectives, but the EU policies towards the region will reflect Lisbon activities that can be considered priorities under the European/Accession Partnerships. The Lisbon objectives will be reflected in the EU's policies for the region and countries are encouraged to take these into account in their reforms and action plans (European Commission, 2006a).

The Lisbon Strategy, that is, cannot be isolated from general EU policies. Lisbon is about policy coordination enabling balanced sustainable development. This implies that a candidate should accept the goals of Lisbon Strategy and develop such a policy mix that will enable it to catch up with the EU even as it is catching up with the USA, while keeping up with the EU *acquis*. This limits policy choices and increases reform pressures, which makes the alignment process more demanding than it was in the last round of enlargement.

Croatia's starting position

Member states' annual progress towards Lisbon goals is monitored on the basis of short-listed structural indicators, agreed with the Council (Table 1)^{xii}. We use the same indicators to identify Croatia's starting position vis-à-vis most important challenges identified by NRPs.

Table 1 Short-listed structural indicators for EU-25, Croatia and other candidates, 2004

		EU-25	Croatia	Bulgaria	Romania	Turkey
<i>General Economic Background</i>						
GDP per capita in PPS		100	45.6	30.4	32.2	28.5
Labour productivity per person employed		100	56.4	31.5	36.4	41.0
<i>Employment</i>						
Employment rate						
Total	70% goal**	63.3	54.7	54.2	57.7	46.1
Females	60% goal**	55.7	47.8	50.6	52.1	24.3
Males		70.9	61.8	57.9	63.4	67.8
Employment rate of older workers						
Total	50% goal**	41.0	30.1	32.5	36.9	33.2
Females		31.7	21.0	24.2	31.4	20.0
Males		50.7	40.9	42.2	43.1	46.9
<i>Innovation and Research</i>						
Gross domestic expenditure on R&D	3% goal**	1.9	1.1*	0.5	0.4	-
Youth education attainment level						
Total		76.6	92.5	76.0	74.8	41.8
Females		79.6	94.4	76.3	76.4	50.9
Males		73.7	91.5	74.8	73.8	74.2
<i>Economic Reform</i>						
Comparative price levels		100	-	43	43.2	58.7
Business investment		17.1	-	17.8	18.3	16.6
<i>Social cohesion</i>						
At-risk-of-poverty rate after social transfers						
Total		16	18*	15	17*	26*
Females		17.0	19*	17	18*	26*
Males		15	17*	17	17*	25*
Dispersion of regional employment rates						
Total		12.2	-	7.0	3.5	-
Females		17.3	-	8.8	6.1	-
Males		10.2	-	5.9	2.6	-
Long-term unemployment rate						
Total		4.1	7.3	7.2	4.5	4.0
Females		4.7	8.9	7.0	3.6	4.5
Males		3.6	6.0	7.3	5.3	3.9
<i>Environment</i>						
Total greenhouse gas emissions		92*	94*	50*	54*	-
Energy intensity of the economy		209	453*	1.756.2	1.369	480
Volume of freight transport relative to GDP		105	-	39	100	100

* Data for 2003

** Denotes goals defined at the EU level

Source: Eurostat (2006)

As is obvious from Table 1, the short-listed indicators do not follow Lisbon priority areas defined at Community level (Box 2). They do not enable monitoring progress towards all goals defined by the integrated guidelines (Box 3). This makes progress monitoring more complex, and less transparent, since links between priorities, designed measures and measurable outputs are not straightforward. Also, a number of social cohesion indicators might be misleading, suggesting that Lisbon is more concerned about social issues than it really is.

Next, data on economic reform (comparative price levels, business investment), and some environmental and social cohesion data are not available for Croatia. Consequently, the short-listed indicators are not sufficient to identify Croatia's starting position vis-à-vis member states and candidates.

Still, it can be concluded that employment is a very challenging area for Croatia. Data for 29 countries (individual EU-25, Croatia, Bulgaria, Romania and Turkey) show that only three countries (Malta 54%, Poland 51.7% and Turkey 45.8%) have lower total employment rates than Croatia, while long-term unemployment rate is higher only in Slovakia (11.8%) and Poland (10.3%). Since employment is generally a challenge for new member states (Rydeman and Tornell, 2004), analysis of employment policies and measures aimed at reaching the 2010 target in new member states can be helpful in designing and implementing Croatia's employment strategy.

According to available indicators, it seems that Croatia can be compared with new member states and that in some areas has better starting position than adhering states. GDP per capita for Croatia is comparable with Lithuania, Latvia and Poland, and higher than in Bulgaria, Romania and Turkey. Energy intensity (which is comparable with Poland and Hungary) and level of greenhouse emission (which is much closer to the Kyoto target than achieved by the new member states) indicate that the structure of Croatian industry is comparable with that of the new member states, and that a significant investment in energy efficiency will be needed to comply with the Kyoto target^{xiii}. This is linked with industrial restructuring, which might be connected with social transfers and could further increase the public deficit, as well as having an impact on employment. Although the government debt and government balance are not among the short-listed indicators, they seem to be important element for designing the NRPs.

Consequently, this brief overview of indicators shows that the Lisbon reforms needed in Croatia should take in consideration the spe-

cific starting position (such as issues related with the sustainability of public finances) but also the fact that in some areas the starting position is hard to identify due to incomparability of statistics.

Lisbon goals as a challenge for Croatia

Croatia does not have a comprehensive action programme to implement the Lisbon strategy goals capable of being compared to the documents some other countries prepared during the accession process. However, some of the aims and the activities leading to its implementation were introduced in the different strategic documents that were prepared after the year 2000. For example, Government prepared a number of sectoral strategic documents under the common title Croatia in the 21st Century, and some of them are very much in line with Lisbon goals. This particularly relates to the strategy covering science and research, which approaches the issues of knowledge-based society, catching up with innovation and new technologies (Government of the Republic of Croatia, 2003). Understood in a wider sense, Lisbon goals are introduced in the 55 Recommendations of the National Competitiveness Council, covering all the areas relevant for raising the level of competitiveness in Croatia, including education, innovation and technology development, strengthening of small and medium-sized enterprises and creating leadership (National Competitiveness Council, 2004).

Most recently, Croatia adopted the Strategic Development Framework 2006-2013, a key document for the coming period.^{xiv} It gives highest priority to knowledge society and introduces the frame for the overall development in the next seven years. The main goals are raising the level of competitiveness, together with strengthening social cohesion and welfare. The development of human resources is recognised as being crucial for the competitiveness of the Croatian economy (Dalić, 2006). The document thus follows some of the key Lisbon agenda goals, although it does not cover all the areas of the redefined Lisbon agenda. Furthermore, there is an urgent need to develop action plans and other implementation instruments with clear obligations, deadlines and a reporting system, in order to converge on and implement specific Lisbon strategy goals during the process of accession.

Being a candidate country, Croatia does not have the obligation to prepare a national reform programme. However, several documents

that were prepared during the past few years include some elements of national reform programmes, although much they differ in type and scope.^{xv}

Entering into negotiations on full membership with the EU, Croatia committed itself to accept not only the *acquis*, but also to harmonise its policies with EU programmes and strategic documents. Primarily, these “soft” obligations start with the need to accept horizontally the Lisbon agenda instruments, in order to be able practically to implement policy measures. With acceptance of the *acquis*, Croatia will share the goals envisaged in the Lisbon strategy in numerous communications and action plans. The screening process has already highlighted some of the areas in which Croatia should start with preparations to implement Lisbon strategy goals.

There is a need to develop a national 3% Action Plan, with co-ordinated measures and precisely defined targets and actions, together with mechanisms for monitoring the implementation. The purpose of such document should be to define Croatia’s own priorities in this particular sphere, having in mind the country’s specific situation and particular needs and possibilities. This should be based on the model of the EU 3% Action Plan, but not necessarily adopting the same target. The 3% target is far for being realistic for Croatia – current investment in R&D in Croatia is 1.14% of GDP, while the EU average is 1.9% (see Table 1). In spite of the fact that Croatia has not prepared action plan comparable with the EU 3% Action Plan, there are initiatives which are in line with the target to “raise overall R&D investment to 3% of GDP by 2010, two thirds of which will come from the private sector”^{xvi}. In this context, Croatian Programme for Innovative Technological Development (HITRA) should be mentioned; this is a government programme aiming to establish an efficient national innovation system through fostering cooperation between science and industry, revitalising industrial R&D and encouraging the commercialisation of research findings.

Among other achievements, it should be mentioned that a “one-stop-shop” (*hitro.hr*) has already been established in Croatia, and in the EU this is a goal that should be met by the end of 2007. However, this measure alone, although considered important, cannot increase business potentials or foster links between entrepreneurship and innovation.

The open method of coordination, as a tool for implementing European soft law in many areas should be implemented in consultation procedures during the process of development of policies in Cro-

atia. The system of benchmarking is extremely important for Croatia, enabling the country to be compared with EU member states and acceding countries in different areas. It is therefore necessary to develop the system of collecting and monitoring qualitative and quantitative indicators in Croatia in all the areas. This system should be linked in the future to the EU system of following indicators (EUROSTAT) and enable Croatia to be compared on an equal basis with the member states and other candidates.

There are examples showing that Croatia has successfully introduced the system of benchmarks for certain areas. Croatia has been included in some reports (e.g. World Economic Forum, 2006) through a benchmarking system. In the year 2006 Croatia was for the first time included in the rankings of the IMD *World Competitiveness Yearbook*^{xvii}, while the country has been comparatively presented in *Global Competitiveness Report* since 2003. According to the IMD report, the main competitiveness challenges facing Croatia in 2006 are a new government role in strengthening innovation and technological development; improving cooperation between R&D institutions and business; increasing public and private investment in R&D and education; accelerating the process of privatization and the restructuring of state and local public enterprises. The challenges correspond quite well with the Lisbon goals, as well as with the priorities underlined in the Government's Strategic Development Framework (Government of the Republic of Croatia, 2006).

Furthermore, Croatia is comparatively positioned by benchmark indicators in a number of recent comparative international studies, such as the *Global Entrepreneurship Monitor* (CEPOR, 2005), which shows significant improvements in Croatia's rank over the previous period. The country's position rose from 32nd place in 2002 to 19th place in 2005, in measurements of several composite indicators of entrepreneurship development and the competitiveness of the enterprise sector.

Another example is the area of education and training. The recent European Commission (2006e) report on progress towards the Lisbon objectives in education and training gives comparative indicators for 30 European countries (EU-15, the acceding countries, candidate countries, and European Economic Area). Due to insufficient statistics Croatia is not comparatively positioned according to all indicators but is presented in most of the areas. There are areas in which Croatia performs even better than the old member states. For example, progress in the field of completion of upper secondary education – the Lisbon benchmark is 85% of population while Croatia is already above

90% (European Commission, 2006e:18; see also Table 1). These indicators (EUROSTAT) are somewhat better even than those from Croatian sources, which opens the question of the compatibility of the statistical methodology applied.

The mentioned examples show that some progress has been made in approaching the Lisbon goals, although a coherent approach is lacking and the coverage is insufficient. It is clear that Croatia needs to prioritise the Lisbon goals, having in mind its specific situation, starting position and real possibilities of implementation. In this respect, it is necessary to raise the awareness that approaching the Lisbon strategy goals is crucial not only for being able to undertake successfully the obligations of a future member state, but for reaching the Copenhagen criteria and overall implementation of reforms, which is in the country's own interest. It is also necessary to raise the awareness and level of understanding of the Lisbon agenda implementation mechanisms and their relevance for the process of approaching the EU.

CONCLUSIONS AND RECOMMENDATIONS

The main conclusions and recommendations, relevant for Croatia, resulting from this paper are following:

- The Lisbon Agenda objectives are relevant for Croatia and the countries of the region. They do not constitute additional criteria or economic objectives. However, the Lisbon objectives will soon be reflected in the EU's policies for the region and the countries should take these into account in their reform programmes and action plans.
- Due to different starting positions in the overall reform programmes the Lisbon agenda priorities should be differently interpreted by each country. Prioritisation and sequencing of the Lisbon agenda goals according to needs is necessary for a candidate country like Croatia.
- In order to have comparable statistics, it will be necessary to develop a system of collecting and monitoring qualitative and quantitative indicators in Croatia. It is likely that this system will correspond to the structural indicators published by EUROSTAT, enabling Croatia to be compared on an equal basis with the member states and other candidates. Consequently, where appropriate, such data should be collected.
- It is necessary to raise the awareness and level of understanding of the Lisbon agenda implementation mechanisms and their relevance

for the process of converging on the EU since approximation to the Lisbon strategy goals is crucial not only for being able to undertake successfully the obligations of future member state status, but for overall success of reform implementation.

- Croatia should speed up the preparations to develop an “umbrella” programme with specific action plans. By doing so it will get closer to Lisbon strategy goals in different areas during the process of accession.
- Although it is unlikely that all Lisbon strategy goals will be implemented by 2010, it will remain the main reform framework for the EU, raising the overall standards, thus making Croatia’s adjustment to the EU requirements even more demanding (the EU being a *moving target*) than it was in the last round of enlargement.

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- i See Presidency Conclusions on the Lisbon strategy 2000-2004 at http://europa.eu.int/growthandjobs/pdf/thematic_lisbon_conclusions_0604_en.pdf.
- ii Although EU productivity levels grew faster than those in the US for five decades, since 1996 the EU has been trailing the USA every single year. Labour productivity in the USA grew twice as fast as in Europe in the period 2000-2005. As a result relative levels of wealth have also started slipping. Investment has been growing by only 1.7% compared with 5.4% per year in the USA. The EU has only 25% of the number of patents per head of population found in the USA. In the USA 32% of population has a university or similar degree, while this percentage stands at only 19% in Europe. In addition, the USA is also investing about twice as much per student than most European countries. In 2004, the average growth of the eurozone was a meagre 2.2%, while the USA economy grew by 4.3%, Japan by 4.4%, India by 6.4% and China by 9% (European Commission, 2005d).
- iii “An agenda for a growing Europe – Making the EU system deliver” was drawn up in 2003 by a group of independent experts under the chairmanship of André Sapir. A six-point agenda was proposed with a view to achieving the objective of the Lisbon strategy and making the enlargement a success: to make a single market more dynamic; to boost investment in knowledge; to improve the macroeconomic policy framework; to redesign policies for convergence and restructuring; to achieve effectiveness in decision-taking and regulation, and to refocus the EU budget.
- iv Spring Report deals with achievements at EU and member state levels and has three main elements: (i) an analysis of the 25 new national reform programmes; (ii) identification of the strengths in different national programmes with a view to promoting the exchange of good ideas, and (iii) identification of areas where there are shortcomings and proposals for concrete action at EU and national level to deal with them. An analysis of national reform programmes includes a four to five page assessment of each member state’s programme and proposes measures that should be implemented by 2007. The Report also contains a succinct general evaluation of programmes and structural indicators showing the evolving economic situation for each member

state. The annexes contain a short list of examples of successful and innovative policies from member states and more detailed – but still “to the point” – analyses of the macro-economic, micro-economic and employment position at European and national level.

- v CIP will provide support to small and medium-sized enterprises to invest in innovation through three specific programmes: (i) “Entrepreneurship and Innovation Programme” will support start up and growth of small and medium-sized enterprises: with a budget of 2.17 billion euros; (ii) the “ICT Policy Support Programme”, with a budget of 730 million euros will support investment in information and communication technologies, and (iii) “Intelligent Energy-Europe Programme” will support increased use of renewable energy and reduced energy consumption with a budget of 730 million euros. It is expected that some 350,000 small and medium-sized enterprises will receive EU support in the period 2007-2013.
- vi Until 2005, member states issued separate employment and economic action plans. National action plans for employment issues described how the employment guidelines are put into practice at the national level. They presented the progress achieved in the member state over the last 12 months and the measures planned for the coming 12 months: they were both reporting and planning documents. National reform plans consist of employment and economic measures in the same document. Hence, national action plans and national reform plans are not the same.
- vii Differences in starting positions among individual member states and pace of reform in the Lisbon process are monitored by around 130 indicators grouped into 6 categories: general economic background, employment, innovation and research, economic reform, social cohesion and environment. Some are also available for the region. The complete list of indicators is available at: http://forum.europa.eu.int/irc/Download/kceu.A9JBmmG9wx7dvqm-Ev_VvAKd0qYFxyJ_Z-bz4IJ3Sp9uLj2p0Dj3hCmX9RmCY4331ET67Y2wPb2D2r/Headings%20database%20SI%20as%20of%20Nov%202005.pdf. Table 1 presents a short list of 14 structural indicators that are covered in the statistical annex to the 2006 Annual Progress Report. This short list has been agreed with the Council and allows for a more concise presentation and a better assessment of achievements over time vis-à-vis the Lisbon agenda. In keeping with the recent streamlining of procedures in the wider context of the Lisbon strategy, it is planned to keep this list stable for three years, with a start in 2004.
- viii Based on the 2004 GDP data, meeting the national targets will lead to a 2.7% R&D expenditure on the EU-25 level. Taking into account different growth rates between old and new members would lead to lower results.
- ix For short listed employment indicators and comparisons among Croatia, candidates and member states see Table 1.
- x Target for 2008.
- xi For more about membership criteria see, for instance, Boromisa (2004:169-170).
- xii Short-listed indicators, selected by the Council (see endnote vii), are published in the Annual Progress Report for EU member states. Based on these indicators we compare Croatia's starting position with EU member states and other candidates.
- xiii Energy intensity of Croatian economy (gross inland consumption of energy divided by GDP in kilograms of oil equivalent per 1,000 Euro), which measures the energy consumption and overall energy efficiency is much higher than the EU average. Total greenhouse emission is close to the Kyoto target (94% of the base year, the target being 95%).

- xiv *The document was prepared by the Central State Office for Development Strategy and passed wide range of consultations during April and May 2006.*
- xv *These documents include Pre-accession economic programme for Croatia (PEP), which is annually prepared by the Government and National programme for the integration of the Republic of Croatia into the European Union (2006-2008). PEP might be considered a forerunner of the Convergence Program and National Reform Programme (Government of the Republic of Croatia, 2005:3). Its structure differs significantly from NRPs, but it has some of its elements, e.g. measurable targets (ibid, 95).*
- xvi *These initiatives are within the framework of national science policy and based on the concepts outlined in the Croatian Strategy for Science in the 21st Century and some other acts, including 55 Policy Recommendations of National Competitiveness Council.*
- xvii *The 2006 Report encompasses 61 countries. Croatia is ranked 59th in the group of countries – behind Bulgaria (47th) and Romania (57th), candidates for membership, and behind EU member countries.*

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